

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION

In re NO. C 05-00427 JW, C 05-00428 JW,
3dfx INTERACTIVE INC., C 05-00429 JW

Debtor.

**ORDER GRANTING IN PART
AND DENYING IN PART
DEFENDANTS' MOTION FOR
ORDER WITHDRAWING
REFERENCE OF ADVERSARY
PROCEEDINGS**

CARLYLE FORTRAN TRUST,

Plaintiff(s),

v.

NVIDIA CORP., et al.,

Defendant(s).

CARRAMERICA REALTY CORP.,

Plaintiff(s),

v.

NVIDIA CORP., et al.

Defendant(s).

WILLIAM A. BRANDT, JR., TRUSTEE,

Plaintiff,

v.

NVIDIA CORP., et al.

Defendant(s).

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I. INTRODUCTION

Presently before the Court is a Motion for Order Withdrawing Reference of Adversary Proceedings (the “Motion”) pursuant to 28 U.S.C. § 157(d) filed by nVidia Corporation, nVidia US Investment Company, Inc. (“nVidia Sub”) (collectively, “nVidia”), Jen-Hsun Huang, James C. Gaither,

1 A. Brooke Seawell, William J. Miller, Tench Coxe, Mark A. Stevens, Harvey C. Jones, Jr., Stephen
2 H. Pettigrew and Christine B. Hoberg (together with nVidia, “the nVidia Defendants”). The nVidia
3 Defendants request that this Court withdraw the references to the bankruptcy court of three actions
4 brought against nVidia: one brought by Plaintiff Carlyle Fortran Trust (“Carlyle”) (Case No.
5 C 05-00427 JW, Bankruptcy Case No. 02-55795 JRG, Adversary Proceeding No. 03-5010), one
6 brought by Plaintiff Carramerica Realty Corporation (“Carramerica”) (Case No. C 05-00428 JW,
7 Bankruptcy Case No. 02-55795 JRG, Adversary Proceeding No. 03-5011), and one brought by
8 Plaintiff and Chapter 11 Trustee William A. Brandt, Jr. (“Trustee”) (Case No. C 05-00429 JW,
9 Bankruptcy Case No. 02-55795 JRG, Adversary Proceeding No. 03-5079). The Court held a hearing
10 on the matter on May 2, 2005. Based on all of the arguments made at the hearing and in the parties’
11 briefs, the nVidia Defendants’ motion is granted in part and denied in part.

II. BACKGROUND

12 The nVidia Defendants have been engaged in litigation in the bankruptcy court for more than
13 two years arising out of nVidia’s purchase of assets in 2001 from the now-bankrupt 3dfx Interactive,
14 Inc. (“3dfx”) pursuant to a December 15, 2000 Asset Purchase Agreement (“APA”). The essence of
15 the three complaints—brought by the bankruptcy Trustee on behalf of all of 3dfx’s creditors and two
16 former landlords as individual creditors—is that nVidia did not pay fair value for the assets it acquired,
17 and that it should be treated as 3dfx’s legal successor. Some background on the transaction giving rise
18 to the bankruptcy actions is appropriate.

19 In the mid-to-late 1990’s, 3dfx and nVidia were rivals in the field of 3D graphics chips. In
20 mid-to-late 2000, 3dfx experienced financial difficulties, and negotiated an Asset Purchase Agreement
21 (“APA”) with nVidia by which nVidia Sub agreed to buy some of 3dfx’s assets, including its portfolio
22 of patents, trademarks and applications. As part of the asset purchase, the companies agreed to settle
23 a pending patent litigation between 3dfx and nVidia Corporation. nVidia Sub agreed to pay 3dfx \$70
24 million in cash for the purchased assets and settlement of the patent cases. Additionally, nVidia
25 agreed to pay 3dfx up to one million shares of nVidia Corporation stock (“contingent stock
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1 consideration") if all of 3dfx's creditors had been paid in full or were otherwise provided for from
2 sources other than the contingent stock consideration, and that 3dfx had been validly dissolved. To the
3 extent the \$70 million cash payment, along with 3dfx's other assets, was insufficient to retire its
4 creditor obligations in full or otherwise provide for them, nVidia also agreed that up to half of the
5 contingent stock consideration could be monetized for \$25 million (at a fixed price of \$50 per share
6 for 500,000 shares), and used by 3dfx to pay its creditors if 3dfx could certify that the additional cash
7 of up to \$25 million cash would be sufficient to pay in full all of 3dfx's creditors.

8 On March 30, 2001, 3dfx filed a certificate with the office of the California Secretary of State
9 stating that it had elected to voluntarily dissolve. Over the ensuing months, 3dfx was not able to
10 satisfy its creditors, including its landlords Carlyle and Carramerica. As a result, 3dfx never
11 received any stock from nVidia.

12 On February 11, 2002, Carlyle, from whom 3dfx had leased its headquarters in San Jose, sued
13 3dfx for breach of lease in the Santa Clara Superior Court. On May 10, 2002, Carlyle filed a second
14 lawsuit in Santa Clara Superior Court, this time against nVidia Corporation, for interference with
15 Lease, fraudulent transfer, unfair business practices, tort of another, breach of fiduciary duty and
16 successor liability. The nVidia Defendants demanded a jury trial in that case on August 26, 2002.

17 On December 13, 2002, CarrAmerica, the owner of 3dfx's facility in Austin, Texas, filed a
18 complaint against 3dfx and nVidia, as well as their respective directors and officers. The
19 CarrAmerica complaint was substantially identical to Carlyle's. On December 23, 2002, Carlyle
20 amended its complaint against nVidia to include specific allegations of wrongdoing against nVidia's
21 directors and some officers.

22 On October 15, 2002, after negotiations with its landlords failed to produce a settlement, 3dfx
23 filed a Chapter 11 petition for bankruptcy. In late January, 2003, the bankruptcy court appointed
24 William Brandt, Jr. to serve as Trustee for 3dfx. Nvidia removed the landlords' adversary
25 proceedings to federal court on January 3, 2003. By virtue of 28 U.S.C. Section 157(a) and
26 Bankruptcy Local Rule 5011-1(a), the matter was automatically referred to the bankruptcy court.

On February 14, 2003, the Trustee filed an action against nVidia and nVidia Sub, alleging claims of fraudulent conveyance and successor liability. All three adversary proceedings were assigned to Bankruptcy Judge James Grube. The three cases have proceeded together through discovery. A Joint Litigation Agreement was entered into by the three plaintiffs in which they each shared work product and legal strategies.

On February 18, 2003, nVidia Corporation filed a Proof of Claim in the 3dfx bankruptcy estate, seeking an adjudication of its contractual right to indemnity from 3dfx for the expense incurred in defending itself against claims arising out of the APA, as well as additional damages for various alleged breaches of representations and warranties by 3dfx. On January 7, 2005, nVidia Corporation filed an Amended Proof of Claim which reduced its demand and withdrew certain allegations against 3dfx that it had previously made on information and belief. The gist of nVidia Corporation's Proof of Claim remained the same, however. Under the APA, it was entitled to indemnification from 3dfx for the losses it had experienced as a result of the lawsuits filed against it. No proof of claim was filed by nVidia Sub.

III. STANDARDS

16 The district court's authority to withdraw the reference of an action to bankruptcy court is
17 governed by 28 U.S.C. § 157(d):

The district court may withdraw, in whole or in part, any case or proceeding referred under this section, on its own motion or on timely motion of any party, for cause shown. The district court shall, on timely motion of a party, so withdraw a proceeding if the court determines that resolution of the proceeding requires consideration of both title 11 and other laws of the United States regulating organizations or activities affecting interstate commerce.

§ 157(d) permits discretionary withdrawal of the reference on a showing of good cause, and mandates it when consideration of other federal laws are required. The mandatory withdrawal under § 157 “should be granted only if the current proceeding cannot be resolved ‘without substantial and material consideration’ of the non-Code federal law.” In re Vicars Ins. Agency, Inc., 196 F.3d 949, 952 (7th Cir. 1996) (citations omitted). Withdrawal is not mandated when the case involves the

1 “straightforward application of a federal statute to a particular set of facts. It is issues requiring
2 significant interpretation of federal laws that Congress would have intended to have decided by a
3 district judge rather than a bankruptcy judge.” Id. at 953 n.5, quoting United States v. Johns-Manville,
4 63 B.R. 600, 602 (S.D.N.Y. 1986).

5 **IV. DISCUSSION**

6 The nVidia Defendants’ Motion is uncontested as it relates to the adversary proceedings
7 brought by Carlyle and Carramerica (collectively, “the Landlords”), as both landlords join in nVidia’s
8 request as it relates to them so that the parties may proceed to a jury trial. Accordingly, the references
9 of the proceedings brought by Carlyle and Carramerica are withdrawn.

10 With regard to the reference of the Trustee’s proceeding, the nVidia Defendants argue that the
11 resolution of the Trustee’s case will require substantial and material consideration of principles of
12 U.S. patent law in connection with its valuation of the patent litigation that was settled as part of the
13 APA. Namely, the nVidia Defendants contend that the Trustee’s bankruptcy law claims are dependent
14 upon the issues of whether the 3dfx patents are valid and enforceable, whether nVidia’s product
15 infringed those patents, and what reasonable royalty would have been imposed as a measure of
16 damages. Thus, it is the nVidia Defendants’ position that withdrawal of the reference of the Trustee’s
17 adversary proceeding is mandatory because the Trustee has irrevocably made his bankruptcy claims
18 dependent upon adjudication of questions of patent law. nVidia further contends that withdrawal of
19 the bankruptcy reference of the Trustee’s case makes sense under the “for cause” provision of §
20 157(d) as well due to the patent law flavor of the Trustee’s theory of the case, combined with the
21 procedural and substantive indivisibility of the three actions.

22 The Court is not persuaded by the nVidia Defendants’ arguments. In his Opposition to the
23 nVidia Defendants’ motion, the Trustee argues that the value of the patent litigation will play, at most,
24 a peripheral role in this litigation, and that the Trustee’s case will likely be resolved without any
25 consideration of patent law whatsoever. The Trustee further argues that even if the trial court chooses
26 to assess the value of the patent litigation, that evaluation will require, at most, the application of a

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1 standard patent infringement analysis to the facts of the underlying patent litigation, and the bankruptcy
2 court will not have to engage in “substantial and material” consideration of non-bankruptcy law such
3 that withdrawal of the reference is mandated. The Court declines to find that withdrawal of the
4 reference of the Trustee’s proceeding is mandatory simply because the valuation of a patent litigation
5 is potentially involved in the assessment of whether nVidia paid fair value for what it purchased from
6 3dfx.

7 Moreover, the Court is not at this time persuaded that the Trustee’s action is procedurally and
8 substantively indivisible from the Landlord’s cases. The Landlord’s action is predicated on ten
9 different theories of liability, while the Trustee’s case alleges only the claims of fraudulent
10 conveyance and successor liability. Further, the nVidia Defendants are entitled to a jury trial in the
11 Landlord actions, while the issue as to nVidia’s right to a jury trial has yet to be determined in the
12 Trustee’s suit. It has come to the Court’s attention that the bankruptcy court has set a hearing to
13 determine whether the filing of a Proof of Claim against the 3dfx bankruptcy estate by nVidia
14 Corporation constituted waiver of the Defendants’ right to a jury trial in the Trustee’s proceeding. As
15 such, this Court declines to exercise its discretion to withdraw the Trustee’s case from the bankruptcy
16 court until the determination as to nVidia’s entitlement to a jury trial is made. Should the bankruptcy
17 court find that a jury trial is proper, then reference of the Trustee’s action may be withdrawn at that
18 time.

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V. CONCLUSION

For the reasons stated above, the nVidia Defendants' motion is granted in part and denied in part. The references to the bankruptcy court as to the adversary proceedings brought by Carlyle and Carramerica are withdrawn. Withdrawal of the reference of the Trustee's case is not warranted at this time.

Dated: May 6, 2005

05cv427,428,429wdraw

/s/ James Ware

JAMES WARE

United States District Judge

United States District Court

For the Northern District of California

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23 **Dated: May 6, 2005**

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